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April 11, 2005

## POLITICS AND POLICY

# Search for Crude Comes With New Dangers

## U.S. Strategic and Diplomatic Thinking Adjusts to Handle Hot Spots With Oil Potential

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April 11, 2005; Page A4

Few U.S. motorists need give a thought to bomb-wielding terrorists in the Caucasus or the rifle-toting Urhobo tribe in the oil-rich delta of Nigeria.

But to national-security planners, diplomats, oil companies and energy planners, they are becoming critical components in the increasingly difficult and risky game of bringing new oil supplies to market.

In the coming years, the flow of oil is expected to be challenged by terrorism, increasing demand, a limited U.S. refining capacity and little spare production world-wide, especially as the thirst for oil grows in China and India.

### WALL STREET JOURNAL VIDEO



How will the search for new oil sources affect U.S. foreign policy?  
[WSJ's Gerald Seib discusses](#)<sup>1</sup>.

Twenty years ago, new oil was coming to the U.S. from Alaska or offshore platforms near Norway and the United Kingdom -- all places with reliable security forces and stable governments. The oil supplies expected over the next two decades are coming from or moving through some of the least stable and most corrupt areas in the

world.

As a result, long-neglected regions such as West Africa are rising in importance to U.S. policy makers. Emerging countries around the Caspian Sea are attracting new attention, too, as is the tense U.S. relationship with Venezuela's leftist government.

Further complicating matters is the struggle emerging between the U.S. and a dollar-rich, oil-hungry China seeking influence and presence in such regions. China's efforts to secure supplies of oil in Africa and Asia could reduce amounts available to the global market, according to Robert Hormats, a former senior State Department aide who is now vice chairman of Goldman Sachs International. He spoke before a House committee on the subject last week.

U.S. officials are particularly worried that China's oil companies are pumping up the economies of countries like Iran and Sudan, despite trade sanctions for alleged state-sponsored terrorism that

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make them off-limits for some Western companies. "Our ability to chase out radicals with sanctions is eroding," warned Chas Freeman, a former assistant secretary of the Defense Department, at a recent symposium on the issue.

The military is paying more attention to emerging oil regions as the country plans for possible disruptions in supply. Over the next decade, the U.S. plans to spend \$100 million on the Caspian Guard, a network of police forces and special-operations units in the Caspian Sea region that can respond to various emergencies, including attacks on oil facilities.

The Defense Department's European Command, based in Stuttgart, Germany, is coordinating the multiagency effort and helping to train forces to protect a new pipeline that will bring oil from rigs in the Caspian Sea through the Caucasus to Ceyhan, a Turkish port on the Mediterranean, starting later this year.

The Caspian Guard, launched in the fall of 2003, will include a radar-equipped command center in Baku, Azerbaijan. That center will give the Azeri government the capability, for the first time, of monitoring shipping activity near the many oil rigs in the Caspian. The Caspian Guard also will be useful in coping with drug and arms smugglers, says Col. Mike Anderson, chief policy planner for the European Command.

Most of the oil from this area will be absorbed by markets in Europe, not the U.S. But any blockage in flows likely would generate a surge in oil prices that would register on gas pumps in the U.S., the world's largest oil consumer. "There is not a lot of excess capacity in the entire international market," says Col. Anderson, "so if there is a threat to the Ceyhan pipeline, it will ultimately affect us."

The U.S.'s European Command also is looking at West Africa. In October it hosted a meeting that included naval leaders from Nigeria, Angola, Cameroon, Guinea and Ghana to discuss possible joint efforts to protect oil facilities in or near West Africa's Gulf of Guinea. The area supplies 14% of U.S. oil imports, up from 8% two decades ago. Some experts say offshore oil discoveries could raise that to 20% within a decade.

The African group had much to discuss, including terrorism, local wars and massive oil thefts by well-armed criminal gangs in Nigeria. But so far there is no plan for a regional "Guinea Guard."

"It's a tougher nut to crack there," says Col. Anderson. He says the U.S. hopes for more anticorruption efforts from governments in the region before such a force can be organized.

Oil from the West Coast of Africa is in high demand by international oil companies. It is light and low in sulfur, much like the Texas crude that refineries along the East Coast of the U.S. were designed to process. And unlike the oil-producing nations of the Middle East, where cash-rich governments are discouraging more Western investment, West African nations are hungry for oil and natural-gas deals.

### Foreign Sources

A look at the rise in crude-oil imports from Venezuela and some African nations since 1985, and a current Energy Department estimate on



Two players raising the stakes in this game are China and India, whose

increasing thirst  
for oil has helped propel oil prices. Their rapid economic growth -- and desires to fill Strategic Petroleum Reserves modeled on the U.S. emergency stockpile in the Gulf of Mexico -- are expected to spur more buying soon to protect them against oil shocks.

Government-owned oil companies from China and India have formed partnerships to produce oil in Iran and Sudan. They also are scouring Africa and the world for more reserves. "We have had a skewed dependence on the Middle East and one is always trying to diversify their sources of oil and gas," says Debnath Shaw, an Indian oil expert.

Both countries also are working on joint oil-production agreements with Venezuela, a major exporter to the U.S. That has emboldened Venezuelan President Hugo Chávez to amplify his political attacks on the U.S. In February he claimed the Bush administration may be planning to assassinate him. If he should be killed, Mr. Chávez warned in a radio broadcast, President Bush "can forget about Venezuelan oil."

All three of China's state-owned oil companies have made repeated visits to Canada, which has been the chief source of imported oil for the U.S. for the past six years. One deal under discussion, according to Murray Smith, the former energy minister of Alberta, is an 800-mile pipeline that would carry crude oil from Alberta's booming tar-sands region to a port in British Columbia, where it could be exported to China. Canada customarily exports about 95% of its oil to the U.S.

What this means to the U.S. oil-security picture and its economy has computers in the Department of Energy whirring. Planners are revising eight-year-old computer models used to predict supply disruptions to account for the new world.

"A lot has happened since 1997," says Lowell Feld, a world-oil-market analyst for the agency's Energy Information Administration. Older models assumed a more tranquil world in which every U.S. refinery got just the type of oil it needed. Says Mr. Feld, "It was too simple."

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